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RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY  
RUCPCIM/CIMS NTDB WASHDC  
RUCPDC/DEPT OF COMMERCE WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RUEHJO/AMCONSUL JOHANNESBURG 5955  
RUEHTN/AMCONSUL CAPE TOWN 3776  
RUEH DU/AMCONSUL DURBAN 8448

UNCLAS SECTION 01 OF 02 PRETORIA 005155

SIPDIS

DEPT FOR AF/S/MTABLER-STONE; AF/EPS; EB/IFD/OMA  
USDOC FOR 4510/ITA/MAC/AME/OA/DIEMOND  
TREASURY FOR OAISA/RALYEA/CUSHMAN  
USTR FOR COLEMAN

SIPDIS

E.O. 12958: N/A  
TAGS: [ECON](#) [EFIN](#) [EINV](#) [ETRD](#) [EMIN](#) [EPET](#) [ENRG](#) [BEXP](#) [KTDB](#) [SENV](#)  
PGOV, SF  
SUBJECT: SOUTH AFRICA ECONOMIC NEWS WEEKLY NEWSLETTER DECEMBER 29,  
2006 ISSUE

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¶1. 1. (U) Summary. This is Volume 6, issue 29 of U.S. Embassy Pretoria's South Africa Economic News weekly newsletter.

Topics of this week's newsletter are:

- Economic Indicators Positive for Year-End
- Consumer Price Index (CPIX) up 5 Percent
- Johannesburg Stock Exchange Hits Record High
- Major Conglomerate Sells 15 Percent Stake to BEE Investors
- Westinghouse Inches towards South African Nuclear Reactor Contract

End Summary.

Economic Indicators Positive for Year-End

¶2. (U) South African economic indicators are looking positive for next year: Retailers are reporting record sales for the holiday season, with expectations of exceeding last year's record-breaking R33.5 billion (\$4.8 billion). Tourism rose by 15% for the first 8 months of 2006, and South Africa is expected to beat last year's tourist record of 7.3 million tourists. Finally, the Japan-based Rating and Investment Information Agency upgraded South Africa's foreign currency long-term rating from BBB+ to A-. (Business Day, December 27 & 29)

Consumer Price Index (CPIX) Up 5 Percent

¶3. (U) The consumer price index excluding interest rates on mortgage bonds (CPIX) increased by 5% in November, compared to the same month in the previous year, the same rate as in October. The producer price inflation index (PPI) increased by 10% in November, also the same rate as in October. The imported component of the PPI index increased by 11.3% and the domestic component increased by 9.7%, revealing that there are strong imported and domestic producer price pressures that have yet to work their way through the system to impact consumer prices. The November CPIX and PPI increases were both lower than expected, reversing an earlier trend of higher-than-expected increases. Despite these encouraging inflation results, the SARB is expected to raise interest rates at least one more time in February. (Business Day, December 22; Business Report, December 21 & 22)

#### Johannesburg Stock Exchange Hits Record High

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14. (U) The lower-than-expected November inflation figures caused the share prices of the interest-sensitive banking sector to increase, helping to drive the Johannesburg Stock Exchange's (JSE) all-share index to record highs of 24,825 on December 21 and 24,949 on December 28. The healthy macro-economy, the weaker rand's positive impact on trade-sensitive sectors, strong foreign portfolio interest in the JSE, and rumors that the JSE might be bought by an overseas entity, like the NASDAQ or the LSE, also helped drive the all-share index to just shy of the 25,000 mark. The average price:earnings ratio on the all-share index now stands at 16.4, near the upper end of the range for the past 15 years. An even weaker dollar, higher domestic interest rates, and a lower domestic economic growth rate are expected to contribute to a more modest increase in the all-share index in 2007. (Financial Mail, December 15; Business Report, December 22; Business Day, December 28)

#### Major Conglomerate Sells 15 Percent Stake to BEE Investors

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15. (U) Major South African conglomerate Barloworld has announced its decision to unbundle its 72% majority stake in its PPC cement and lime-producing subsidiary and sell a minority stake in both companies to BEE investors. The PCC unbundling follows Barloworld's sell-off of almost R8 billion (\$1.1 billion) in assets and purchase of R7 billion (\$1 billion) in assets during the past eight years. Barloworld CEO Tony Phillips will also depart after eight years of successful leadership. Barloworld sources suggest that Phillips may end up running the PPC spin-off given PPC's control of 80% of the domestic cement market, the large number of private investment projects, the government's massive infrastructure investment program, and the rapidly growing demand for cement. The Barloworld and PPC BEE deals are further examples of the private sector's willingness to move ahead with BEE deals now that the BEE codes have

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been approved. (Financial Mail, December 22; The Weekender, December 23-24)

#### Westinghouse Inches towards South African Nuclear Reactor Contract

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16. (U) Westinghouse Electric is competing with Areva of France and a South Korean company to build the first of four planned pressurized water reactors (PWR) in SA, with an estimated value of \$1.5 to \$2 billion and creating as many as 5,000 jobs in the U.S. The reactor is to be located near South Africa's existing commercial reactor at Koeberg in South Africa's Western Cape Province. Until recently, Areva's main competitive advantage over Westinghouse was that it was already building the first of its latest technology 1,600 megawatt plants in Finland, even though this project was experiencing delays, while Westinghouse had yet to find a customer for its latest-technology, 1,100 megawatt AP 1000 plants. On December 16, China National Nuclear awarded Westinghouse a \$5.3 billion contract to build two AP 1000 units at Sanmen in Zhejiang Province and two more at Yangjiang in Guangdong Province. Westinghouse won the award over Areva and AtomStroyExport of Russia. China's decision to award the contract to Westinghouse should strengthen Westinghouse's competitive position against Areva for the South African contract. Toshiba Corporation of Japan acquired a 70% controlling interest in Westinghouse from British Nuclear Fuels Limited on October 16, 2006. (Business Day, December 18; Business Report, December 18 & 19; Embassy contacts)

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